

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF Havre Pipeline)	REGULATORY DIVISION
Company's Service Quality and Its)	
Response to Notice of Commission Action)	DOCKET NO. D2015.3.32
in N2014.11.92)	
IN THE MATTER OF the Request of the)	DOCKET NO. N2014.11.92
Montana Public Service Commission for)	
Havre Pipeline Company Service Quality)	
Information)	

Pre-Filed Supplemental Testimony
of
George L. Donkin
on Behalf
of
The Montana Consumer Counsel

July 24, 2015

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TABLE OF CONTENTS

I.	IDENTIFICATION AND QUALIFICATIONS OF WITNESS	1
II.	INTRODUCTION	3
III.	THE HPC RESPONSE	6
IV.	HPC’S OBLIGATION TO SERVE FARM TAP CUSTOMERS	10

1 **I. IDENTIFICATION AND QUALIFICATIONS OF WITNESS**

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
3 **ADDRESS.**

4 A. My name is George L. Donkin. I am an economist employed by J.W.
5 Wilson & Associates, Inc. My business address is 1601 North Kent Street,
6 Arlington, VA, 22209.

7 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS**
8 **PROCEEDING?**

9 A. My appearance in this case is on behalf of the Montana Consumer Counsel
10 (MCC).

11 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND**
12 **PROFESSIONAL BACKGROUND?**

13 A. I hold B.A. and M.A. degrees in economics from the University of
14 Maryland, where my major fields of study were economic theory, industrial
15 organization, and antitrust economics. I am a consulting economist
16 specializing in energy economics and public policy toward business. I have
17 more than forty years of experience in energy-related and public utility
18 work, both as a consultant and as a staff economist at the Federal Power
19 Commission, the predecessor of the Federal Energy Regulatory

1 Commission (FERC). Since 1974, I have been employed as a consulting
2 economist representing various clients, including federal agencies, state
3 regulatory commissions, state consumer advocate offices, public and
4 private utility companies, industrial firms, natural gas producers, gas
5 pipelines, gas distribution companies, gas marketers, and non-profit
6 organizations. My professional work has pertained to a wide range of
7 issues concerning the natural gas and petroleum industries, public utility
8 regulation, energy policy, antitrust issues, and economic research and
9 analysis. A special focus of my professional work has been the study of
10 natural gas markets generally, and the analysis of price formation in both
11 the regulated and unregulated sectors of the natural gas industry, in
12 particular.

13 **Q. HAVE YOU PREVIOUSLY PRESENTED EXPERT TESTIMONY IN**
14 **PROCEEDINGS INVOLVING THE NATURAL GAS AND OIL**
15 **INDUSTRIES?**

16 A. Yes. I have presented expert testimony on natural gas and oil industry
17 topics in nearly two hundred proceedings before numerous State and
18 Federal courts, before the FERC, before the Surface Transportation Board,
19 and before various state public utility commissions. I have also testified as
20 a natural gas expert in arbitration proceedings in Kansas, Louisiana, New

1 Mexico and Texas, before a Mediator in Ohio, and in Federal tax and
2 bankruptcy courts.

3 **Q. HAVE YOU PREVIOUSLY PRESENTED EXPERT TESTIMONY**
4 **BEFORE THE MONTANA PUBLIC SERVICE COMMISSION?**

5 A. Yes. During the past twenty-five years I have presented expert testimony
6 before this Commission in numerous proceedings, many of which involved
7 natural gas utility service being provided by the Montana Power Company
8 and its successor, NorthWestern Energy (NWE), by Great Falls Gas
9 Company and its successor, Energy West Montana, and by the Montana-
10 Dakota Utilities Company.

11 **II. INTRODUCTION**

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

13 A. NWE's subsidiary, Havre Pipeline Company (HPC, or the Company),
14 provides natural gas utility service to landowners – frequently referred to as
15 farm-tap customers – that are located along the Company's natural gas
16 gathering and transmission pipelines in North-Central Montana. In 2014
17 the Commission staff received several complaints from farm tap customers

1 concerning the adequacy and reliability of the natural gas service being
2 provided and charged under tariff by HPC.

3 On November 14, 2014, the Commission initiated Docket No. N2014.11.92
4 by issuing a Notice of Commission Action requiring HPC to file a plan
5 within 20 days to explain what the Company will do to meet its obligations
6 as a public utility to provide reliable natural gas service to its farm tap
7 customers.

8 On November 20, 2014, NWE, as manager of HPC, filed a Motion
9 requesting additional time to file its plan. In its Motion, NWE stated that
10 “Havre Pipeline will not abandon any facilities during the winter heating
11 season. Additionally, it will promptly handle freeze-offs on its side of the
12 meter and provide guidance to customers if freeze-offs occur on the
13 customer’s side of the meter so that customers will continue to receive
14 service during winter months.”

15 On November 26, 2014, the Commission issued another Notice of
16 Commission Action, also in Docket No. N2014.11.92, ordering NWE to
17 file its plan for providing adequate and reliable natural gas service to farm
18 tap customers by 5:00 PM on January 5, 2015.

19 HPC filed its plan (HPC Response) regarding the provision of adequate and
20 reliable natural gas service to farm tap customers on January 5, 2015.

1 On April 1, 2015, the Commission established Docket No. D2015.3.32, as a
2 contested case proceeding involving HPC's Response in Docket No
3 N2014.11.92, and simultaneously consolidated Docket No. D2015.3.32 and
4 Docket No. N2014.11.92.

5 On June 3, 2015, the Commission issued an Amended Procedural Order in
6 these consolidated dockets, establishing dates for discovery by the
7 Commission and MCC on HPC's Response, responses by NWE to
8 discovery requests, a filing date for MCC testimony, filing dates for
9 discovery requests of MCC and MCC responses to discovery requests, plus
10 other case-related procedural dates, including rebuttal testimony by NWE.

11 I have been asked by MCC to review the HPC Response and NWE's
12 responses to discovery requests of the Commission and MCC, and to
13 present the results of my review to the Commission in the form of this pre-
14 filed direct testimony.

1 **III. THE HPC RESPONSE**

2 **Q. HOW MANY FARM TAP CUSTOMERS RECEIVE GAS UTILITY**
3 **SERVICE FROM HPC?**

4 A. The HPC Response states that the Company presently has 96 active farm
5 tap customers.

6 **Q. HOW MANY OF THOSE FARM TAP CUSTOMERS ARE SERVED**
7 **BY HPC FROM ITS HIGH PRESSURE GAS TRANSMISSION**
8 **PIPELINE?**

9 A. The HPC Response states that the Company presently has 16 farm tap
10 customers that are served from its high pressure gas transmission pipeline.

11 **Q. DO THERE APPEAR TO BE ADEQUACY OR RELIABILITY OF**
12 **SERVICE ISSUES REGARDING THE GAS UTILITY SERVICE**
13 **BEING PROVIDED BY HPC TO THE 16 FARM TAP CUSTOMERS**
14 **THAT ARE SERVED FROM THE COMPANY'S HIGH PRESSURE**
15 **GAS TRANSMISSION PIPELINE?**

16 A. No. The HPC Response states that farm tap customers that are served from
17 its high pressure gas transmission pipeline are not experiencing any service
18 quality problems.

1 **Q. HOW MANY FARM TAP CUSTOMERS ARE SERVED BY HPC**
2 **FROM ITS LOW PRESSURE GAS GATHERING PIPELINE**
3 **SYSTEM?**

4 A. The HPC Response states that the Company presently has 80 farm tap
5 customers that are served from its low pressure gas gathering pipeline
6 system.

7 **Q. HAVE SOME OF THESE 80 CUSTOMERS EXPERIENCED**
8 **ADEQUACY OR RELIABILITY OF SERVICE ISSUES?**

9 A. The HPC Response states that some of the 80 farm tap customers that are
10 served from its low pressure gas gathering pipeline system have
11 experienced low pressure and freeze-off issues.

12 **Q. HAS HPC TAKEN STEPS TO IMPROVE THE RELIABILITY OF**
13 **SERVICE BEING PROVIDED TO FARM TAP CUSTOMERS THAT**
14 **ARE SERVED FROM ITS GAS GATHERING PIPELINE SYSTEM?**

15 A. Yes. The HPC Response states that (1) in 2014 the Company invested more
16 than \$200,000 to update most farm tap settings, and (2) the Company held a
17 farm tap customer information meeting on November 18, 2014, to inform
18 customers regarding safety issues and ways to make their gas service more
19 reliable.

1 **Q. HOW MANY OF THE 80 FARM TAP CUSTOMERS BEING**
2 **SERVED FROM HPC’S LOW PRESSURE GAS GATHERING**
3 **PIPELINE SYSTEM HAVE BEEN IDENTIFIED BY HPC AS**
4 **HAVING ACTUAL OR POTENTIAL RELIABILITY OF SERVICE**
5 **ISSUES?**

6 A. The HPC Response states that the Company is considering the
7 abandonment of a 14 mile segment of gas gathering pipeline from the Curt
8 Rambo farm tap to the Vogel Master Meter, and if that is done it would
9 eliminate service to 5 farm tap customers (Curt Rambo, Donald Swinney,
10 Lyle Williams, Leon Williams, and Keith Donovan). Two of these 5 farm
11 tap customers – Curt Rambo and Keith Donovan – filed service reliability
12 complaints with the Commission in 2014.

13 The HPC Response also describes existing service reliability problems with
14 2 other farm tap customers that filed complaints with the Commission –
15 Stuart Reynolds and Lois Ramberg.

16 The HPC Response also describes actual or potential service reliability
17 problems at 28 additional farm taps that have pressures below 5 psig.

18 It therefore appears that actual or potential present or near-term future
19 service reliability problems may exist for 35 of the 80 farm tap customers
20 served from HPC’s low pressure gas gathering pipeline system.

1 **Q. DOES HPC RECOMMEND THAT THESE 35 FARM TAP**
2 **CUSTOMERS CONSIDER ALTERNATIVES TO NATURAL GAS**
3 **UTILITY SERVICE AT THEIR EXISTING FARM TAPS?**

4 A. Yes. The HPC Response recommends that these 35 customers evaluate
5 their options for a heating source other than natural gas supplied by the
6 Company at their existing farm taps.

7 **Q. DOES THE HPC RESPONSE IDENTIFY SPECIFIC**
8 **ALTERNATIVES TO NATURAL GAS UTILITY SERVICE FOR**
9 **THESE 35 FARM TAP CUSTOMERS?**

10 A. Yes. For many of these 35 customers the Company suggests propane,
11 electricity, or wood as alternatives to their existing farm tap gas utility
12 service from HPC. For some, the Company describes line tap extensions to
13 existing HPC or NWE gas transmission pipelines.

1 **IV. HPC’S OBLIGATION TO SERVE FARM TAP CUSTOMERS**

2 **Q. YOU STATED PREVIOUSLY THAT HPC PROVIDES GAS**
3 **UTILITY SERVICE TO ITS FARM TAP CUSTOMERS. WHAT IS**
4 **THE BASIS FOR THAT OPINION?**

5 A. The Commission has had ratemaking jurisdiction over HPC and its
6 predecessor, Northern Natural Gas Company, since February of 1984. See
7 the Commission’s Interim Rate Order No. 5095a, in Docket No. 83.9.65. In
8 addition, on August 15, 1995, in Docket No. 95.2.5, at ¶ 29 of its
9 Declaratory Ruling, the Commission found that HPC’s farm tap service is a
10 public utility service, and that such service would be regulated by the
11 Commission pursuant to farm tap tariffs.

12 **Q. ARE PUBLIC UTILITY NATURAL GAS COMPANIES**
13 **OBLIGATED TO PROVIDE REASONABLY ADEQUATE**
14 **NATURAL GAS SERVICE TO THEIR CUSTOMERS?**

15 A. As a consulting economist specializing in the economics of regulated
16 industries since 1970, I have frequently observed that public utility natural
17 gas companies have an obligation to provide reasonably adequate service to
18 their customers.

1 **Q. HAS THE OBLIGATION OF NATURAL GAS PUBLIC UTILITY**
2 **COMPANIES TO PROVIDE REASONABLY ADEQUATE**
3 **SERVICE TO THEIR CUSTOMERS BEEN RECOGNIZED BY THE**
4 **MONTANA COMMISSION?**

5 A. Yes. In its November 14, 2014 Notice of Commission Action in this case,
6 the Commission stated “Public utilities are obligated to provide reasonably
7 adequate service. Mont. Code Ann. § 69-3-201.” Similarly, in its November
8 26, 2014 Notice of Commission Action, the Commission specifically
9 applied this obligation to serve principle to HPC, noting that it had
10 previously directed HPC “...to file a plan within 20 days to explain what it
11 will do to meet its obligations as a public utility to provide reliable natural-
12 gas service.”

13 **Q. SHOULD HPC TAKE THE NECESSARY STEPS TO CONTINUE**
14 **PROVIDING REASONABLY ADEQUATE SERVICE TO ALL OF**
15 **THE 80 FARM TAP CUSTOMERS THAT ARE PRESENTLY**
16 **SERVED FROM ITS GAS GATHERING PIPELINE SYSTEM?**

17 A. Yes.

1 **Q. SHOULD THOSE STEPS BE TAKEN EVEN IF THAT REQUIRES**
2 **ADDITIONAL EXPENDITURES BY HPC TO CONTINUE**
3 **SERVING SOME OF ITS 80 FARM TAP CUSTOMERS?**

4 A. Yes.

5 **Q. WHAT IF THE ADDITIONAL EXPENDITURES THAT WOULD BE**
6 **REQUIRED TO ENABLE HPC TO PROVIDE REASONABLY**
7 **ADEQUATE SERVE TO A FARM TAP CUSTOMER ARE**
8 **CONSIDERED BY HPC TO BE EXCESSIVE?**

9 A. In that event, HPC should negotiate a buy-out arrangement with the
10 customer. If the customer agrees to a buy-out arrangement, HPC could then
11 request abandonment approval from the Commission so as to allow the
12 Company to terminate the applicable gas utility farm tap service.

13 **Q. WHAT WOULD BE THE BASIS FOR A BUY-OUT**
14 **ARRANGEMENT BETWEEN HPC AND A GIVEN FARM TAP**
15 **CUSTOMER?**

16 A. HPC would know the approximate level of cost necessary to enable it to
17 provide adequate service to the customer. If the service is to be terminated,
18 the customer would need to incur the costs to convert from farm tap natural
19 gas service to an alternative heating source, such as propane, electricity,
20 wood, or possibly a pipeline extension to a NWE or HPC gas transmission

1 pipeline. Therefore, any agreed upon conversion cost buy-out payment by
2 HPC that is below the estimated cost necessary to enable HPC to provide
3 adequate farm tap service would represent a cost saving for the Company,
4 and at the same time it would compensate the departing farm tap customer
5 for incurring the cost to convert to an alternative heating source.

6 **Q. SHOULD HPC ABSORB ALL OF THE COSTS OF ANY BUY-OUT**
7 **PAYMENTS IT MAKES TO DEPARTING FARM TAP**
8 **CUSTOMERS?**

9 A. Yes. Buy-out payments made by HPC to departing farm tap customers
10 should be totally absorbed by the Company. Stated another way, none of
11 the costs of any buy-out payments made by HPC to departing farm tap
12 customers should be passed on to HPC's remaining customers.

13 **Q. WHAT SHOULD HAPPEN IF HPC AND AN EXISTING FARM TAP**
14 **CUSTOMER THAT HAS ACTUAL OR POTENTIAL RELIABILITY**
15 **OF SERVICE ISSUES ARE UNABLE TO AGREE TO A BUY-OUT**
16 **ARRANGEMENT?**

17 A. As I previously stated, the Commission has found that HPC has a public
18 utility obligation to provide reliable natural gas service to its farm tap
19 customers. Accordingly, if HPC and an existing farm tap customer that has
20 actual or potential reliability of service issues are unable to agree to a buy-

1 out arrangement, then the Company should take the necessary steps and
2 incur the applicable costs to enable it to restore or continue providing
3 reliable farm tap service to the customer.

4 **Q. DOES THAT CONCLUDE YOUR PRE-FILED DIRECT**
5 **TESTIMONY IN THIS CASE?**

6 **A.** Yes, it does.